

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

NEWS RELEASE

Nolte, Cornman & Johnson P.C. today released an audit report on the Northwood-Kensett Community School District in Northwood, Iowa.

The District's revenues totaled \$5,564,394 for the year ended June 30, 2006, an increase of 5.09 percent from the prior year. Revenues included \$2,473,399 in local tax, charges for service of \$407,683, operating grants, contributions and restricted interest of \$593,146, unrestricted state grants of \$1,982,284, unrestricted interest of \$25,966 and other general revenues of \$81,916.

Expenses for District operations totaled \$5,065,914, a 1.5 percent decrease from the prior year. Expenses included \$1,838,102 in regular instruction, \$669,142 in special instruction and \$513,783 in administration services.

A copy of the audit report is available for review in the District Secretary's office, the office of the Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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Northwood-Kensett Community School District
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2005 Election)		
Larry Hovey	President	2005
Keith Braun	Vice President	2006
Dan Block	Board Member	2005
John Anderson	Board Member	2007
Don Pangburn	Board Member	2007

Board of Education		
(After September 2005 Election)		
Larry Hovey	President	2008
Keith Braun	Vice President	2006
John Anderson	Board Member	2007
Don Pangburn	Board Member	2007
Cindy Pangburn	Board Member	2008

School Officials		
Tom Nugent	Superintendent	2006
Karen Abrahams	District Secretary/ Treasurer	2006
John Greve	District Attorney	2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Northwood-Kensett Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Northwood-Kensett Community School District, Northwood, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Northwood-Kensett Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

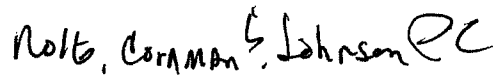
In accordance with Government Auditing Standards, we have also issued our report dated August 18, 2006 on our consideration of Northwood-Kensett Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 36 are not required

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parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northwood-Kensett Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

August 18, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Northwood-Kensett Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,035,092 in fiscal year 2005 to \$4,296,800 in fiscal year 2006, while General Fund expenditures increased from \$4,000,285 in fiscal 2005 to \$4,092,390 in fiscal 2006. This, along with a transfer in of \$5,995 and a sale of equipment and materials of \$4,389, resulted in an increase in the District's General Fund balance from \$261,809 in fiscal 2005 to \$476,603 in fiscal 2006, a 82% increase from prior year.
- The increase in General Fund revenues was attributable to allowable growth as allowed by the SBRC due to increased enrollment, special education deficit allowable growth and an increase in miscellaneous income. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- Overall, the District increased net assets in the governmental activities by \$430,130, and increased in the business-type activities by \$17,465, respectively.
- We're in our 9th year of a 20 year Debt Service on New Elementary Construction and Junior/Senior Remodeling Project, which ends in 2017 for \$3,765,000.
- In March of 2004, the District purchased a wind turbine for \$60,000. The purchase was financed by a \$135,000 Energy Loan. One-half of the loan has a 4.38% rate, and the other one-half of the loan is interest free. The turbine remained on the property it was built on. The District has taken out a 26 year lease for \$1,850 per year, which will began in July, 2005 and end on July 1, 2031.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Northwood-Kensett Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Northwood-Kensett Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Northwood-Kensett Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Northwood-Kensett Community School District Annual Financial Report

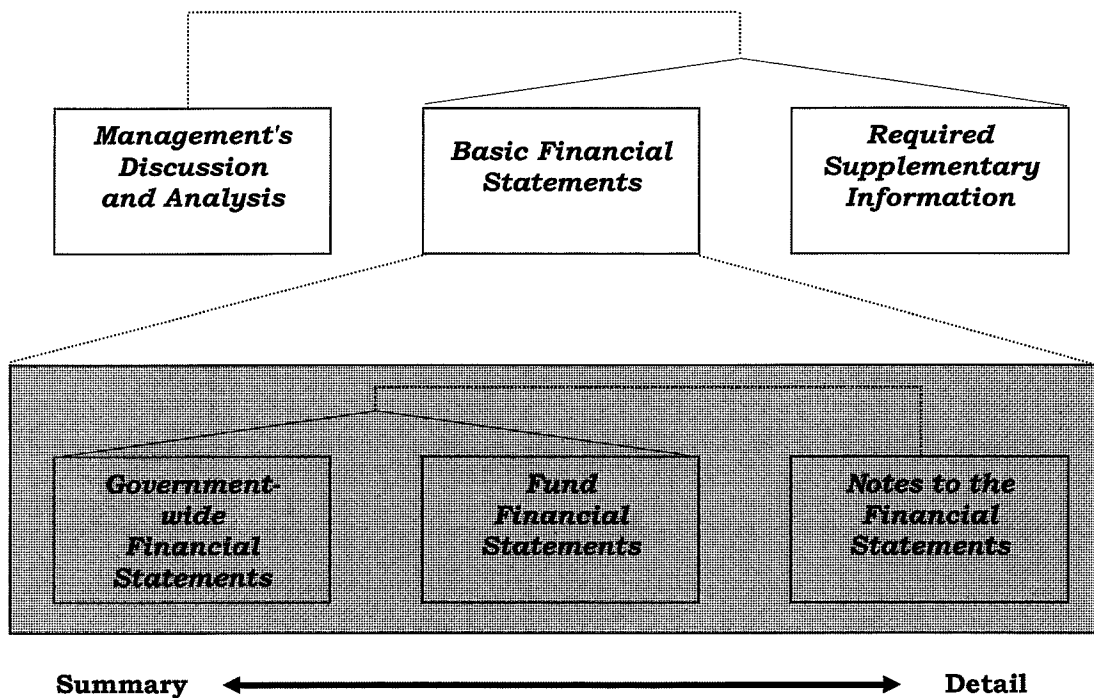


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other entities and the Empowerment Program, whereby the District acts as the fiscal agent.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 3,719,582	3,011,160	16,745	11,165	3,736,327	3,022,325	23.62%
Capital assets	4,089,390	4,256,536	15,053	17,463	4,104,443	4,273,999	-3.97%
Total assets	7,808,972	7,267,696	31,798	28,628	7,840,770	7,296,324	7.46%
Long-term obligations	2,745,641	2,962,888	0	0	2,745,641	2,962,888	-7.33%
Other liabilities	2,473,200	2,195,692	893	15,188	2,474,093	2,210,880	11.91%
Total liabilities	5,218,841	5,158,580	893	15,188	5,219,734	5,173,768	0.89%
Net assets:							
Invested in capital assets, net of related debt	1,477,684	1,432,492	15,053	17,463	1,492,737	1,449,955	2.95%
Restricted	586,218	354,890	0	0	586,218	354,890	65.18%
Unrestricted	526,229	321,734	15,852	(4,023)	542,081	317,711	70.62%
Total net assets	\$ 2,590,131	2,109,116	30,905	13,440	2,621,036	2,122,556	23.48%

The District's combined net assets increased by 23.48%, or \$498,480 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted

net assets increased approximately 65% over the prior year. The increase was primarily a result of the increase in the Capital Projects fund balance.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- increased approximately 71% over the prior year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 246,027	297,147	161,656	150,244	407,683	447,391	-8.88%
Operating grants and contributions and restricted interest	503,803	432,850	89,343	88,578	593,146	521,428	13.75%
Capital grants and contributions and restricted interest	0	43,442	0	0	0	43,442	-100.00%
General revenues:							
Property tax	2,214,519	2,128,217	0	0	2,214,519	2,128,217	4.06%
Local option sales and service tax	258,880	239,450	0	0	258,880	239,450	0.00%
Unrestricted state grants	1,982,284	1,864,397	0	0	1,982,284	1,864,397	6.32%
Other	107,689	50,679	193	51	107,882	50,730	112.66%
Total revenues	5,313,202	5,056,182	251,192	238,873	5,564,394	5,295,055	5.09%
Program expenses:							
Governmental activities:							
Instructional	3,019,142	2,959,745	0	0	3,019,142	2,959,745	2.01%
Support services	1,271,202	1,233,275	0	0	1,271,202	1,233,275	3.08%
Non-instructional programs	0	0	233,727	248,008	233,727	248,008	-5.76%
Other expenses	541,843	702,207	0	0	541,843	702,207	-22.84%
Total expenses	4,832,187	4,895,227	233,727	248,008	5,065,914	5,143,235	-1.50%
Change in net assets	481,015	160,955	17,465	(9,135)	498,480	151,820	228.34%
Net assets beginning of year	2,109,116	1,948,161	13,440	22,575	2,122,556	1,970,736	7.70%
Net assets end of year	\$ 2,590,131	2,109,116	30,905	13,440	2,621,036	2,122,556	23.48%

In fiscal 2006, property tax and unrestricted state grants account for 79% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.9% of the revenue from business type activities.

The District's total revenues were approximately \$5.56 million of which \$5.31 million was for governmental activities and \$.25 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.09% increase in revenues and a 1.5% decrease in expenses. The decrease in expenses was related to decreases in the negotiated salary and benefits in the Propriety, School Nutrition.

Governmental Activities

Revenues for governmental activities were \$5,313,202 and expenses were \$4,832,187.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,019,142	2,444,723
Support services	1,271,202	1,260,789
Other expenses	541,843	376,845
Totals	<u>\$ 4,832,187</u>	<u>4,082,357</u>

- The cost financed by users of the District's programs was \$246,027.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$503,803.
- The net cost of governmental activities was financed with \$2,214,519 in property tax, \$258,880 in local option sales and services tax, \$1,982,284 in unrestricted state grants and \$25,773 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$251,192 and expenses were \$233,727. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Northwood-Kensett Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,180,352, above last year's ending fund balances of \$750,222. However, the primary reason for the increase is due to the District's controlled spending in the General Fund and the increase in local option sales and service tax in the Capital Projects Fund.

Governmental Fund Highlights

- The District's General Fund financial position changed from \$261,809 to \$476,603. This was due to the controlled spending by the District. Expenditure for the year only increased \$92,105, while revenues increased \$261,708.
- The District started receiving local option sales and service tax from Worth County, which resulted in the Capital Projects Fund having an ending fund balance of \$407,393.
- The Special Revenue, Management Levy fund balance increased from \$66,466 to \$105,656, due to the increase in tax levy during the current year.

Proprietary Funds Highlights

The School Nutrition Fund net assets increased from \$13,440 at June 30, 2005 to \$30,905 at June 30, 2006, representing an increase of 130%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$228,843 less than budgeted revenues, a variance of 4.3%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$4.1 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$195,816.

The original cost of the District's capital assets was \$7,153,461. Governmental funds account for \$7,055,012 with the remainder of \$98,449 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$250,243 at June 30, 2005 compared to \$199,847 at June 30, 2006. The decrease was due to the current year depreciation.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 36,425	36,425	0	0	36,425	36,425	0.00%
Buildings	3,732,838	3,847,333	0	0	3,732,838	3,847,333	-3.07%
Improvements other than buildings	135,333	139,998	0	0	135,333	139,998	-3.45%
Machinery and equipment	184,794	232,780	15,053	17,463	199,847	250,243	-25.22%
Total	\$ 4,089,390	4,256,536	15,053	17,463	4,104,443	4,273,999	-4.13%

Long-Term Debt

At June 30, 2006, the District had \$2,745,641 in other long-term debt outstanding. This represents a decrease of 7.3% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonded indebtedness payable of \$2,575,000 at June 30, 2006.

At year-end, the District had total energy capital loan notes payable from the Special Revenue, Physical Plant and Equipment Levy of \$125,664.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$26,515 at June 30, 2006.

Also, the District had compensated absences of \$18,462, which is an increase of 10.8% from the prior year.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2006	2005	2005-06
General obligation bonds	\$ 2,575,000	2,750,000	-6.4%
Capital loan notes	125,664	154,954	-18.9%
Early retirement	26,515	41,272	-35.8%
Compensated absences	18,462	16,662	10.8%
Totals	\$ 2,745,641	2,962,888	-7.3%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The voters of Worth County passed the Local Option Sales and Services in 2004. This 1 cent tax on sales and services will greatly benefit the District in maintaining their buildings, purchasing equipment and debt repayment.
- With the installation of the wind turbine, the District is hoping to start enjoying the economic benefits.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Karen Abrahams, District Secretary and Business Manager, Northwood-Kensett Community School District, 1200 1st Avenue North, P.O. Box 289,, Northwood, Iowa, 50459-0289.

BASIC FINANCIAL STATEMENTS

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments			
ISCAP(Note 4)	\$ 187,466	0	187,466
Other	1,028,055	13,894	1,041,949
Receivables:			
Property tax:			
Delinquent	39,608	0	39,608
Succeeding year	2,231,177	0	2,231,177
Income surtax	76,800	0	76,800
Accounts	5,000	200	5,200
Accrued ISCAP interest (Note 4)	58	0	58
Due from other governments	151,418	0	151,418
Inventories	0	2,651	2,651
Capital assets, net of accumulated depreciation (Note 5)	4,089,390	15,053	4,104,443
Total Assets	7,808,972	31,798	7,840,770
Liabilities			
Accounts payable	41,704	237	41,941
Salaries and benefits payable	1,079	386	1,465
ISCAP warrants payable (Note 4)	187,000	0	187,000
ISCAP accrued interest payable (Note 4)	47	0	47
ISCAP premiums payable	1,423	0	1,423
Accrued interest payable	10,770	0	10,770
Deferred revenue:			
Succeeding year property tax	2,231,177	0	2,231,177
Unearned revenue	0	270	270
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds payable	185,000	0	185,000
Energy loan notes payable	30,104	0	30,104
Early retirement payable	8,505	0	8,505
Compensated absences payable	18,462	0	18,462
Portion due after one year:			
General obligation bonds payable	2,390,000	0	2,390,000
Energy loan notes payable	95,560	0	95,560
Early retirement payable	18,010	0	18,010
Total Liabilities	5,218,841	893	5,219,734
Net Assets			
Investment in capital assets, net of related debt	1,477,684	15,053	1,492,737
Restricted for:			
Salary improvement program	8,712	0	8,712
Management levy	79,141	0	79,141
Capital Projects	407,393	0	407,393
Other special revenue purposes	90,972	0	90,972
Unrestricted	526,229	15,852	542,081
Total Net Assets	\$ 2,590,131	30,905	2,621,036

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 1,838,102	72,369	338,805	(1,426,928)	0	(1,426,928)
Special instruction	669,142	0	0	(669,142)	0	(669,142)
Other instruction	511,898	163,245	0	(348,653)	0	(348,653)
	3,019,142	235,614	338,805	(2,444,723)	0	(2,444,723)
Support services:						
Student services	74,091	0	0	(74,091)	0	(74,091)
Instructional staff services	96,818	0	0	(96,818)	0	(96,818)
Administration services	513,783	0	0	(513,783)	0	(513,783)
Operation and maintenance of plant services	373,331	0	0	(373,331)	0	(373,331)
Transportation services	213,179	10,413	0	(202,766)	0	(202,766)
	1,271,202	10,413	0	(1,260,789)	0	(1,260,789)
Other expenditures:						
Facilities acquisitions	119,990	0	0	(119,990)	0	(119,990)
Long-term debt interest	137,695	0	0	(137,695)	0	(137,695)
AEA flowthrough	164,998	0	164,998	0	0	0
Depreciation(unallocated) *	119,160	0	0	(119,160)	0	(119,160)
	541,843	0	164,998	(376,845)	0	(376,845)
Total governmental activities	4,832,187	246,027	503,803	(4,082,357)	0	(4,082,357)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	233,727	161,656	89,343	0	17,272	17,272
Total business-type activities	233,727	161,656	89,343	0	17,272	17,272
Total	\$ 5,065,914	407,683	593,146	(4,082,357)	17,272	(4,065,085)
General Revenues and Transfers:						
Property tax levied for:						
General purposes				\$ 1,792,701	0	1,792,701
Capital outlay				141,607	0	141,607
Debt service				280,211	0	280,211
Local option sales and services tax				258,880	0	258,880
Unrestricted state grants				1,982,284	0	1,982,284
Unrestricted investment earnings				25,773	193	25,966
Transfers				26,208	0	26,208
Other				55,708	0	55,708
Total general revenues				4,563,372	193	4,563,565
Changes in net assets				481,015	17,465	498,480
Net assets beginning of year				2,109,116	13,440	2,122,556
Net assets end of year				\$ 2,590,131	30,905	2,621,036

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments				
ISCAP(Note 4)	\$ 187,466	0	0	187,466
Other	462,112	279,796	286,147	1,028,055
Receivables:				
Property tax				
Delinquent	29,399	0	10,209	39,608
Succeeding year	1,765,938	0	465,239	2,231,177
Income surtax	76,800	0	0	76,800
Accounts	5,000	0	0	5,000
Accrued ISCAP interest (Note 4)	58	0	0	58
Due from other governments	23,821	127,597	0	151,418
Total Assets	\$ 2,550,594	407,393	761,595	3,719,582
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 41,704	0	0	41,704
Salaries and benefits payable	1,079	0	0	1,079
ISCAP warrants payable (Note 4)	187,000	0	0	187,000
ISCAP accrued interest payable (Note 4)	47	0	0	47
ISCAP premiums payable	1,423	0	0	1,423
Deferred revenue:				
Succeeding year property tax	1,765,938	0	465,239	2,231,177
Income surtax	76,800	0	0	76,800
Total liabilities	2,073,991	0	465,239	2,539,230
Fund balances:				
Reserved for:				
Salary improvement program	8,712	0	0	8,712
Debt service	0	0	31,008	31,008
Unreserved	467,891	407,393	265,348	1,140,632
Total fund balances	476,603	407,393	296,356	1,180,352
Total Liabilities and Fund Balances	\$ 2,550,594	407,393	761,595	3,719,582

SEE NOTES TO FINANCIAL STATEMENTS.

Net assets of governmental activites (page 13)	\$ 2,590,131
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NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,667,929	258,880	546,574	2,473,383
Tuition	72,369	0	0	72,369
Other	95,516	1,692	178,258	275,466
State sources	2,311,567	0	385	2,311,952
Federal sources	149,419	0	0	149,419
Total revenues	4,296,800	260,572	725,217	5,282,589
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,686,465	64,236	74,176	1,824,877
Special instruction	669,142	0	0	669,142
Other instruction	377,244	0	134,654	511,898
	2,732,851	64,236	208,830	3,005,917
Support services:				
Student services	74,091	0	0	74,091
Instructional staff services	96,818	0	0	96,818
Administration services	473,267	0	40,516	513,783
Operation and maintenance of plant services	365,725	0	1,000	366,725
Transportation services	184,640	0	13,341	197,981
	1,194,541	0	54,857	1,249,398
Other expenditures:				
Facilities acquisitions	0	0	119,990	119,990
Long-term debt:				
Principal	0	0	204,290	204,290
Interest	0	0	138,463	138,463
AEA flowthrough	164,998	0	0	164,998
	164,998	0	462,743	627,741
Total expenditures	4,092,390	64,236	726,430	4,883,056
Excess(deficiency) of revenues over(under) expenditures	204,410	196,336	(1,213)	399,533
Other financing sources(uses):				
Transfer in	5,995	0	83,224	89,219
Transfer out	0	(28,600)	(34,411)	(63,011)
Sale of equipment and materials	4,389	0	0	4,389
Total other financing sources(uses)	10,384	(28,600)	48,813	30,597
Net change in fund balances	214,794	167,736	47,600	430,130
Fund balance beginning of year	261,809	239,657	248,756	750,222
Fund balance end of year	\$ 476,603	407,393	296,356	1,180,352

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ 430,130

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of current depreciation exceed expenditures in the current year, as follows:

Depreciation expense	\$ (192,646)	
Capital outlays	<u>25,500</u>	(167,146)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 16

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	\$ 14,757	
Compensated absences	<u>(1,800)</u>	12,957

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 204,290

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

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Changes in net assets of governmental activities (page 14) \$ 481,015

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	<u>School Nutrition</u>
Assets	
Current assets:	
Cash and pooled investments	\$ 13,894
Accounts receivable	200
Inventories	2,651
Capital assets, net of accumulated depreciation (Note 5)	15,053
Total Assets	<u>31,798</u>
Liabilities	
Accounts payable	237
Salary and benefits payable	386
Unearned revenues	270
Total Liabilities	<u>893</u>
Net Assets	
Investment in capital assets, net of related debt	15,053
Unrestricted	15,852
Total Net Assets	<u>\$ 30,905</u>

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for service	<u>\$ 161,656</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	67,219
Benefits	26,256
Services	5,517
Supplies	130,767
Depreciation	3,170
Other	798
TOTAL OPERATING EXPENSES	<u>233,727</u>
OPERATING LOSS	<u>(72,071)</u>
NON-OPERATING REVENUES:	
State sources	3,221
Federal sources	86,122
Interest income	193
TOTAL NON-OPERATING REVENUES	<u>89,536</u>
Net income	17,465
Net assets beginning of year	<u>13,440</u>
Net assets end of year	<u><u>\$ 30,905</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EXHIBIT I

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	<u>School</u> <u>Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 168,325
Cash received from miscellaneous operating activities	1,197
Cash payments to employees for services	(93,089)
Cash payments to suppliers for goods or services	(124,103)
Net cash used in operating activities	<u>(47,670)</u>
Cash flows from non-capital financing activities:	
State grants received	3,221
Federal grants received	73,039
Net cash provided by non-capital financing activities	<u>76,260</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(760)</u>
Cash flows from investing activities:	
Interest on investment	<u>193</u>
Net increase in cash and cash equivalents	28,023
Cash and cash equivalents at beginning of year	<u>(14,129)</u>
Cash and cash equivalents at end of year	<u><u>\$ 13,894</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (72,071)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	13,083
Depreciation	3,170
Increase in inventories	(141)
Decrease in accounts receivable	8,455
Increase in accounts payable	37
Increase in salaries and benefits payable	386
Decrease in unearned revenue	(589)
Net cash used in operating activities	<u><u>\$ (47,670)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and investments	<u><u>\$ 13,894</u></u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$13,083.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

		<u>Private Purpose</u>
		<u>Trust</u>
		<u>Scholarship</u>
Assets		
Cash and pooled investments	\$	<u>350,315</u>
Net Assets		
Reserved for scholarships	\$	<u>350,315</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2006

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Interest	\$ 13,753
Deductions	0
Income before other financing uses	13,753
Other financing uses:	
Unrealized loss	(6,790)
Transfer out	(26,208)
Total other financing uses	(32,998)
Change in net assets	(19,245)
Net assets beginning of year	369,560
Net assets end of year	\$ 350,315

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Northwood-Kensett Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Northwood and Kensett, Iowa, and the predominate agricultural territory in Worth County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Northwood-Kensett Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Northwood-Kensett Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Worth County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary fund is the School Nutrition Fund. The Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operation.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the

government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 0
Buildings	2,000
Land improvements	2,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Life (In Years)
Buildings	50 years
Land improvements	20-50 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for

additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The District's investments are all category 1 which means that the investments are insured or registered or the securities are held by the District or its agent in the District's name.

Investments are stated at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates.

The District's investments at June 30, 2006, are as follows:

Type	Fair Value
Corporate bonds	\$ 286,065

(3) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue: Physical Plant and Equipment Levy	\$ 33,724
Debt Service	Capital Projects	28,600
General	Nonexpendable Trust	5,308
General	Special Revenue: Expendable Trust	687
Special Revenue: Expendable Trust	Nonexpendable Trust	20,900
Total		\$ 89,219

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06A	6/28/05	6/28/06	\$ 726	0	0	0
2006-07A	6/28/06	6/28/07	186,740	58	187,000	47
Total			<u>\$ 187,466</u>	<u>58</u>	<u>187,000</u>	<u>47</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity in the General Fund was noted for the year ended June 30, 2006.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	4.000%	3.903%
2006-07A	4.500%	5.676%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 97,689	760	0	98,449
Less accumulated depreciation	80,226	3,170	0	83,396
Business-type activities capital assets, net	<u>\$ 17,463</u>	<u>(2,410)</u>	<u>0</u>	<u>15,053</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 36,425	0	0	36,425
Total capital assets not being depreciated	36,425	0	0	36,425
Capital assets being depreciated:				
Buildings	5,876,335	0	0	5,876,335
Land improvements	167,981	0	0	167,981
Machinery and equipment	994,894	25,500	46,123	974,271
Total capital assets being depreciated	7,039,210	25,500	46,123	7,018,587
Less accumulated depreciation for:				
Buildings	2,029,002	114,495	0	2,143,497
Land improvements	27,983	4,665	0	32,648
Machinery and equipment	762,114	73,486	46,123	789,477
Total accumulated depreciation	2,819,099	192,646	46,123	2,965,622
Total capital assets being depreciated, net	4,220,111	(167,146)	0	4,052,965
Governmental activities capital assets, net	\$ 4,256,536	(167,146)	0	4,089,390

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 26,182
Support services:	
Operation and maintenance of plant	6,606
Transportation	40,698
	<u>73,486</u>
Unallocated depreciation	<u>119,160</u>
Total governmental activities depreciation expense	<u>\$ 192,646</u>
Business-type activities:	
Food services	<u>\$ 3,170</u>

(6) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,750,000	0	175,000	2,575,000	185,000
Energy capital loan notes	154,954	0	29,290	125,664	30,104
Early retirement	41,272	0	14,757	26,515	8,505
Compensated absences	16,662	18,462	16,662	18,462	18,462
Total	<u>\$ 2,962,888</u>	<u>18,462</u>	<u>235,709</u>	<u>2,745,641</u>	<u>242,071</u>

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 1, 1998				
	Interest Rates		Principal	Interest	Total
2007	5.15	% \$	185,000	125,630	310,630
2008	5.25		190,000	116,750	306,750
2009	5.35		200,000	107,630	307,630
2010	5.45		210,000	98,030	308,030
2011	5.50		220,000	87,950	307,950
2012-2016	5.55-5.75		1,275,000	268,340	1,543,340
2017	5.80		295,000	14,750	309,750
Total			<u>\$ 2,575,000</u>	<u>819,080</u>	<u>3,394,080</u>

Energy Capital Loan Notes Payable

The District issued \$90,000 and \$135,000 of Energy Management Capital Loan Notes during the year ended June 30, 2003 and 2004. The proceeds from the loan were used to implement an energy conservation program and purchase a wind turbine. The first \$90,000 of notes bear interest at 3.96%, the second \$67,500 of notes bear interest at 4.38% and the third \$67,500 of notes are interest free. The final payment on all of the notes is in 2010. The notes and interest will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. The notes are payable as follows:

Year ended June 30,	Series 1		Series 2	
	Principal	Interest	Principal	Interest
2007	\$ 11,026	1,853	9,436	1,765
2008	11,463	1,416	9,850	1,352
2009	11,917	963	10,281	920
2010	12,389	491	10,731	470
Total	<u>\$ 46,795</u>	<u>4,723</u>	<u>40,298</u>	<u>4,507</u>

Series 3		Total	
Principal	Interest	Principal	Interest
9,643	-	30,105	3,618
9,643	-	30,956	2,768
9,643	-	31,841	1,883
9,642	-	32,762	961
<u>38,571</u>	<u>-</u>	<u>125,664</u>	<u>9,230</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be between the ages fifty-five and sixty-two and must have completed fifteen years of full time service to the District. Employees must complete an application, which is subject to be approval by the Board of Education. Early retirement incentives are based in the differences between the employee's current base salary and the starting base salary. Early retirement benefits paid during the

year ended June 30, 2006, totaled \$14,757. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$146,671, \$146,528 and \$139,502 respectively, equal to the required contributions for each year.

(8) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$164,998 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUND
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 2,821,218	161,849	2,983,067	2,763,710	2,763,710	(219,357)
State sources	2,311,952	3,221	2,315,173	2,298,725	2,298,725	(16,448)
Federal sources	149,419	86,122	235,541	242,503	242,503	6,962
Total revenues	5,282,589	251,192	5,533,781	5,304,938	5,304,938	(228,843)
Expenditures:						
Instruction	3,005,917	0	3,005,917	3,235,000	3,235,000	229,083
Support services	1,249,398	0	1,249,398	1,270,000	1,270,000	20,602
Non-instructional programs	0	233,727	233,727	250,000	250,000	16,273
Other expenditures	627,741	0	627,741	890,898	890,898	263,157
Total expenditures	4,883,056	233,727	5,116,783	5,645,898	5,645,898	529,115
Excess(deficiency) of revenues over(under) expenditures	399,533	17,465	416,998	(340,960)	(340,960)	(757,958)
Other financing sources, net	30,597	0	30,597	0	0	30,597
Excess(deficiency) of revenues and other financing sources over(under) expenditures	430,130	17,465	447,595	(340,960)	(340,960)	(727,361)
Balance beginning of year	750,222	13,440	763,662	711,378	711,378	(52,284)
Balance end of year	\$ 1,180,352	30,905	1,211,257	370,418	370,418	(779,645)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2006

	Special Revenue Funds						
	Physical				Total		Total
	Manage- ment Levy	Plant & Equipment Levy	Student Activity	Expendable Trust	Special Revenue	Debt Service	Nonmajor Governmental Funds
Assets							
Cash and pooled investments	\$ 103,325	66,075	66,570	24,402	260,372	25,775	286,147
Receivables:							
Property tax:							
Current year delinquent	2,331	2,645	0	0	4,976	5,233	10,209
Succeeding year	125,000	147,842	0	0	272,842	192,397	465,239
Total Assets	\$ 230,656	216,562	66,570	24,402	538,190	223,405	761,595
Liabilities and Fund Balances							
Liabilities:							
Deferred revenue:							
Succeeding year property tax	\$ 125,000	147,842	0	0	272,842	192,397	465,239
Fund balances:							
Reserved:							
Debt service	0	0	0	0	0	31,008	31,008
Unreserved	105,656	68,720	66,570	24,402	265,348	0	265,348
Total fund balances	105,656	68,720	66,570	24,402	265,348	31,008	296,356
Total Liabilities and Fund Balances	\$ 230,656	216,562	66,570	24,402	538,190	223,405	761,595

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 OTHER NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds						Total
	Manage- ment Levy	Physical Plant and Equipment Levy	Student Activity	Expendable Trust	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 124,756	141,607	0	0	266,363	280,211	546,574
Other	19,232	16,616	136,267	3,055	175,170	3,088	178,258
Intermedate sources	84	101	0	0	185	200	385
TOTAL REVENUES	144,072	158,324	136,267	3,055	441,718	283,499	725,217
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	50,425	0	0	23,751	74,176	0	74,176
Other instruction	0	0	134,654	0	134,654	0	134,654
Support services:							
Administration services	40,116	0	0	0	40,116	400	40,516
Operation and maintenance of plant services	1,000	0	0	0	1,000	0	1,000
Transportation services	13,341	0	0	0	13,341	0	13,341
Other expenditures:							
Facilities acquisitions	0	119,990	0	0	119,990	0	119,990
Long-term debt:							
Principal	0	0	0	0	0	204,290	204,290
Interest	0	0	0	0	0	138,463	138,463
TOTAL EXPENDITURES	104,882	119,990	134,654	23,751	383,277	343,153	726,430
Excess(deficiency) of revenues over(under) expenditures	39,190	38,334	1,613	(20,696)	58,441	(59,654)	(1,213)
OTHER FINANCING SOURCES(USES):							
Transfer in	0	0	0	20,900	20,900	62,324	83,224
Transfer out	0	(33,724)	0	(687)	(34,411)	0	(34,411)
TOTAL OTHER FINANCING SOURCES(USES)	0	(33,724)	0	20,213	(13,511)	62,324	48,813
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	39,190	4,610	1,613	(483)	44,930	2,670	47,600
FUND BALANCES BEGINNING OF YEAR	66,466	64,110	64,957	24,885	220,418	28,338	248,756
FUND BALANCES END OF YEAR	\$ 105,656	68,720	66,570	24,402	265,348	31,008	296,356

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 746	718	1,028	436
Speech	181	110	291	0
Vocal music	2,172	969	917	2,224
Vocal candy sales	5,629	0	5,629	0
Choir robe	940	118	0	1,058
High school band	(42)	1,232	1,160	30
JH band	(53)	79	26	0
Elementary band	(66)	146	80	0
High school band uniforms	1,331	942	748	1,525
JH band uniforms	217	0	217	0
High school horn rent/repair	562	154	60	656
Junior high horn	882	0	882	0
Elementary horn rent	(112)	0	(112)	0
Stage band	(24)	0	(24)	0
Band-pizza sales	259	0	259	0
Band trip	3,498	6,971	(1,785)	12,254
General athletics	570	4,486	5,056	0
Athletic passes	1,716	4,050	5,766	0
Boys Basketball	900	14,672	15,572	0
Football	3,620	9,212	12,832	0
District football	52	630	781	(99)
Baseball	(1,861)	4,612	2,751	0
Boys track	(2,685)	1,561	(1,124)	0
Boys golf	(236)	15	(221)	0
Coop wrestling	5,724	4,219	5,914	4,029
Junior high wrestling	(100)	0	(100)	0
Girls basketball	(485)	5,958	5,473	0
Volleyball	197	4,408	4,605	0
Softball	(2,279)	1,055	(1,224)	0
Girls track	457	2,138	2,595	0
Girls golf	(247)	0	(247)	0
FFA	729	35,746	37,564	(1,089)
Honor society	5	184	149	40
High school student council	2,316	1,166	2,518	964
Student leadership	362	0	15	347
Cheerleaders	(653)	3,655	1,906	1,096
Junior high cheerleaders	47	0	0	47
NCNK cheerleaders	(14)	0	(14)	0
Spanish club	0	5,634	597	5,037
FCCLA club	7	1,647	1,578	76

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Extreme N-K	40	390	160	270
Library	175	0	0	175
Class of 2005	567	0	459	108
Class of 2006	983	973	1,554	402
Class of 2007	287	1,058	1,274	71
Class of 2008	103	495	2	596
Class of 2009	46	920	(20)	986
Class of 2010	50	230	3	277
Class of 2011	0	250	18	232
Archery	0	2,500	2,500	0
Chip	178	265	0	443
Science projects	136	0	0	136
Student planner	105	0	0	105
HS student of the month	1,733	381	825	1,289
Athletic misc.	10	700	710	0
Beverage machine athletics	123	1,038	1,161	0
Yearbook	(7,127)	8,336	6,606	(5,397)
Pepsi donations	4,367	450	2,326	2,491
Interest on checking	331	177	508	0
Interest on CD's	773	566	1,139	200
Elementary activities	1,921	0	1,461	460
Band CD	35,894	1,051	1,850	35,095
Total	\$ 64,957	136,267	134,654	66,570

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, EXPENDABLE TRUST ACCOUNTS
 YEAR ENDED JUNE 30, 2006

	Reuben/Helen Cornelius Scholarship	Gilbert Charles Stevens	Hellen Holstad	Pepsi	Building Trades	Osten Music	Total
REVENUES:							
Interest	\$ 0	1,825	0	0	875	355	3,055
EXPENDITURES:							
Scholarships	10,000	3,250	8,900	0	875	0	23,025
Supplies	0	0	0	0	0	726	726
TOTAL EXPENDITURES	10,000	3,250	8,900	0	875	726	23,751
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	(10,000)	(1,425)	(8,900)	0	0	(371)	(20,696)
Other financing sources(uses):							
Transfer in	10,000	2,000	8,900	0	0	0	20,900
Transfer out	0	0	0	(687)	0	0	(687)
Total other financing sources(uses)	10,000	2,000	8,900	(687)	0	0	20,213
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES AND OTHER FINANCING USES	0	575	0	(687)	0	(371)	(483)
Balance beginning of year	0	15,332	0	687	3,900	4,966	24,885
Balance end of year	\$ 0	15,907	0	0	3,900	4,595	24,402

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 NON-EXPENDABLE TRUST ACCOUNTS
 YEAR ENDED JUNE 30, 2006

	Reuben/Helen Cornelius Scholarship	Gilbert Charles Stevens	Hellen Holstad	Pepsi	Osten Music	Total
Additions:						
Interest	\$ 4,173	1,705	7,679	196	0	13,753
Deductions	0	0	0	0	0	0
EXCESS OF ADDITIONS OVER DEDUCTIONS	4,173	1,705	7,679	196	0	13,753
Other financing uses:						
Unrealized loss	(2,131)	(345)	(4,314)	0	0	(6,790)
Transfer out	(10,000)	(2,000)	(8,900)	(5,308)	0	(26,208)
Total other financing uses	(12,131)	(2,345)	(13,214)	(5,308)	0	(32,998)
EXCESS (DEFICIENCY) OF ADDITIONS OVER (UNDER) DEDUCTIONS AND OTHER FINANCING USES	(7,958)	(640)	(5,535)	(5,112)	0	(19,245)
Balance beginning of year	88,322	77,230	184,396	5,112	14,500	369,560
Balance end of year	\$ 80,364	76,590	178,861	0	14,500	350,315

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 YEAR ENDED JUNE 30, 2006

	Beginning			Ending
	Balance	Increases	Decreases	Balance
DCAT/EMPOWERMENT				
Assets:				
Due from other groups	\$ 5,240	0	5,240	0
Liabilities:				
Due to General Fund	\$ 3,604	0	3,604	0
Due to other groups	1,636	0	1,636	0
	\$ 5,240	0	5,240	0
RAMSEY NATURE CENTER				
Assets:				
Cash and other investments	\$ 366	0	366	0
Liabilities:				
Due to other groups	\$ 366	0	366	0
TOTAL				
Assets:				
Cash and other investments	\$ 366	0	366	0
Due from other groups	5,240	0	5,240	0
	\$ 5,606	0	5,606	0
Liabilities:				
Due to General Fund	\$ 3,604	0	3,604	0
Due to other groups	2,002	0	2,002	0
	\$ 5,606	0	5,606	0

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

Modified Accrual Basis				
Years Ended June 30				
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 2,473,383	2,376,421	2,154,280	2,105,539
Tuition	72,369	81,471	64,500	22,003
Other	275,466	242,923	226,566	278,709
Intermediate sources	0	13,093	0	0
State sources	2,311,952	2,150,064	1,887,359	2,019,082
Federal sources	149,419	190,625	200,208	236,537
Total	<u>\$ 5,282,589</u>	<u>5,054,597</u>	<u>4,532,913</u>	<u>4,661,870</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 1,824,877	1,744,473	1,882,702	1,665,032
Special instruction	669,142	719,381	642,003	585,274
Other instruction	511,898	473,065	409,380	403,591
Support services:				
Student services	74,091	133,658	128,773	126,112
Instructional staff services	96,818	100,568	123,543	61,779
Administration services	513,783	450,089	427,141	395,175
Operation and maintenance of plant services	366,725	335,670	323,659	313,450
Transportation services	197,981	143,065	137,278	130,885
Other expenditures:				
Facilities acquisition	119,990	192,102	361,474	295,756
Long-term debt:				
Principal	204,290	225,078	219,167	191,510
Interest	138,463	149,020	157,512	161,524
AEA flowthrough	164,998	155,958	151,485	162,891
Total	<u>\$ 4,883,056</u>	<u>4,822,127</u>	<u>4,964,117</u>	<u>4,492,979</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Northwood-Kensett Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Northwood-Kensett Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 18, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northwood-Kensett Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwood-Kensett Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain

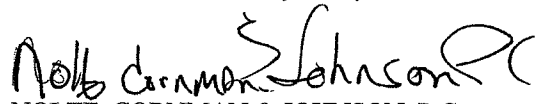
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immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Northwood-Kensett Community School District and other parties to Northwood-Kensett Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Northwood-Kensett Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

August 18, 2006

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion - Response accepted.

- I-B-06 Supporting Documents for Payments with Credit Cards - Payments made with credit cards do not always have detailed supporting documentation.

Recommendation - The District has a policy in place for credit card usage, which states that the users of the credit cards need to provide detailed receipts for purchases made. The District should review procedures in place with personnel using the district credit cards to ensure the proper detailed documentation will be available with paid credit card statements.

Response - The District will comply.

Conclusion - Response accepted.

- I-C-06 Student Activity Fund - During our audit issues arose about the properness of certain fund balances in the Student Activity Fund. Inappropriate fund balances would include any fund balances in which the expenditure are more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from. More specifically, the District has a library account with an ending balance at the end of the year.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--

12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - The District will monitor and comply.

Conclusion - Response accepted.

- I-D-06 Pre-numbered Receipts - We noted during our audit that the District does not use pre-numbered receipts when money is turned in.

Recommendation - Better internal controls are achieved if the District uses pre-numbered receipts, and reconciles the receipts to deposits and revenues posted when performing bank reconciliations. The District should review their procedures to ensure that internal control processes are being utilized.

Response - The District will review its procedures.

Conclusion - Response accepted.

- I-E-06 Timely Deposits - We noted during our audit that deposits for the Enterprise, School Nutrition Fund were prepared but may not be taken to the bank for deposit until several days/weeks later.

Recommendation - All receipts should be deposited when received. The district should review procedures to ensure that the deposits are made timely.

Response - The District will review its procedures.

Conclusion - Response accepted.

- I-F-06 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest account and an old class account.

Recommendation - Interest should be allocated out to various accounts on a yearly basis. The class account, where the students have already graduated, should be closed out to another student activity account.

Response - The District will comply.

Conclusion - Response accepted.

- I-G-06 Donations - We noted during our audit that a donation was made to the NK Foundation. The Uniform Procedures Manual specifically identifies "Student activity funds may not in any event be devoted or allocated to any private organization" which is referenced from an Attorney General's Opinion dated March 26, 1946. The District should refrain from making donation to any organizations.

Recommendation - The District should review its procedures to ensure that District funds are not donated to private organizations. The District should request for the donation to be returned from the NK Foundation.

Response - The District has received the donated money from the NK Foundation.

Conclusion - Response accepted.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District expenditures for the year ended June 30, 2006, did not exceed the amount budgeted.
- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jeanette Berge, Special ed aide Spouse owns Berge Oil	Oil/lubricants	\$958
Robin Fredericks, Bus driver & Aide Spouse co-owns A&I Auto	Tires & Repairs	\$2,223
Tom Sculley, Bus driver Terri Sculley, Aide Owns Village Florist	Supplies	\$109

In accordance with the Attorney's General's opinion dated November 9, 1976, the above transactions with the spouse of Jeanette Berge and Robin Fredericks do not appear to represent a conflict of interest.

In accordance with the Attorney's General's opinion dated July 2, 1990, the above transactions with Tom and Terri Sculley do not appear to represent a conflict of interest.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-J-06 Financial Condition - During our audit we noted that the District had negative account balances in the Student Activity Fund.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficit.

Response - The District will continue to monitor these funds and investigate alternatives to eliminate the deficit.

Conclusion - Response accepted.

II-K-06 Capital Project Expenditures - Capital project expenditures may be used for anything that is allowable out of the Physical Plant and Equipment Levy (PPEL). Chapter 298.3 of the Code of Iowa states that the Physical Plant and Equipment Levy (PPEL) may be used for "The purchase, lease, or lease-purchase of a single unit of equipment or technology exceeding five hundred dollars in value per unit." The District purchased computer software from the Capital Projects fund for \$3,160.11. This does not appear to be an allowable expenditure from the Capital Projects Fund.

Recommendation - The District should make a corrective transfer and reimburse the Capital Projects Fund for the cost of the computer software and should establish procedures to ensure compliance with Chapter 298.3 of the Code of Iowa.

Response - The District has taken corrective action and reimbursed the Capital Projects Fund.

Conclusion - Response accepted.